Tab A
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20 April 1967

Tab A

IMPACT OF A STRATEGIC ARMS FREEZE ON SOVIET MILITARY SPENDING

1. The following conclusions are drawn from a preliminary assessment of the impact on Soviet military spending of a freeze* on the expansion of strategic weapons deployment:

a. The USSR has been spending some 2.5 billion to 3 billion rubles annually on the production and deployment of advanced strategic weapons, and current projections suggest that this level of investment will continue for some time.

b. A moratorium on the expansion of strategic forces would have the effect of releasing by about 1969 an average of some 2 billion rubles (equivalent to about $4 billion) annually for other purposes, while allowing for continued modification and routine improvements in existing systems.

* The freeze is defined to apply to any expansion of present sites and further deployment of ABM's and Tallinn-type SAM's; fixed land-based ICBM's, IRBM's, and MRBM's, except sites now under way; new construction of missile-launching submarines; and to the introduction of any land mobile ICBM's, IRBM's, and MRBM's.

Expenditure data presented in this memorandum are based on our general appraisal of the cost implications of specified changes in programs compared with those now projected. The terms Soviet military spending or expenditures as used in this memorandum are defined to include the Soviet equivalent of those for the US DoD, AEC, and NASA.

c. In contrast to current projections that total military and space expenditures will rise 15 to 20 percent by 1970, a major reduction in spending for strategic systems would permit the USSR to stabilize total military spending at about the 1967 level (20 billion to 21 billion rubles) and still maintain growth in elements such as R&D and space.

d. Stabilization of military expenditures would ease some of the current pressure on the economy and would permit future growth in GNP to be devoted to capital investment or consumption.

e. However, there are alternative uses in military and space programs for resources released by a freeze. For example, the modernization of general purpose forces might be enhanced; military R&D and space might be broadened.

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DISCUSSION

2. There is as yet no basis for predicting how the USSR might utilize the high-quality resources released by an agreement to limit the expansion of strategic weapons systems. Alternative uses include: (a) intensive upgrading of strategic systems if permitted by an agreement; (b) improving the Soviet military posture broadly, with emphasis

on the general purpose forces; (c) raising the quality and quantity of investment in the national economy; or (d) improving the lot of the Soviet consumer directly. The Soviet leadership could well distribute the resources among several or all of the above claimants.

3. A freeze commencing in mid-1967, but allowing for completion of work in process, would not register its full effect on Soviet military/space expenditures until about 1969. The potential savings in 1969 and thereafter would amount to roughly 2 billion rubles per year, or about 10 percent of the current level of expenditures. In addition, there would be some secondary savings in expenditures for operation and maintenance as the result of forgoing an expansion of the stock of strategic weapons.

4. Under a freeze agreement, it would be possible for the USSR to hold down the level of military/space expenditures through 1970, in contrast to current projections that these expenditures may rise 15 to 20 percent by 1970. Such a leveling still would permit continued growth in military R&D or selected programs. An important consequence of such a leveling would be that increases in GNP could be allocated to capital investment or to improvement of living standards. Savings of military expenditures on the order of 2 billion rubles per year would be equivalent to the end product of some one-half million workers.

5. The resources represented by 2 billion rubles are of significant magnitude in relation to other Soviet economic activity. For example, 2 billion rubles compares with current investment programs as follows: (a) it represents about one-third of all current annual Soviet costs for construction of weapons systems sites plus purchases of all military weapons and equipment, excluding costs of military research and development and space; (b) it exceeds the capital investment in the iron and steel industry for 1966 by about 300 million rubles; (c) it is almost 30 percent of 1966 investment in all consumer goods industries; (d) it equals 1966 investment in the rapidly expanding chemicals industry; and (e) it is about two-thirds of the current level of capital investment in the civilian producer goods industry.

6. The actual economic benefits from a freeze agreement would be considerably less than the potential benefits, at least initially. For example, the USSR probably would initially retain plant capacity for strategic weapons, materials, and personnel to produce designated systems on short notice in the event of changes in relationships. It is possible that, in the absence of inspection or production restrictions, systems could be produced and stored rather than deployed. There would be a strong incentive to upgrade systems deployed at existing sites.

7. A genuine freeze on the production and deployment of strategic and defensive weapons could materially aid detailed long-range Soviet economic planning which has been profoundly affected by uncertainties, especially military. In this context, agreement would assist the reduction of uncertainty, reduce requirements to maintain flexibility for contingencies, and thus improve the likelihood of satisfactory performance with regard to economic goals.

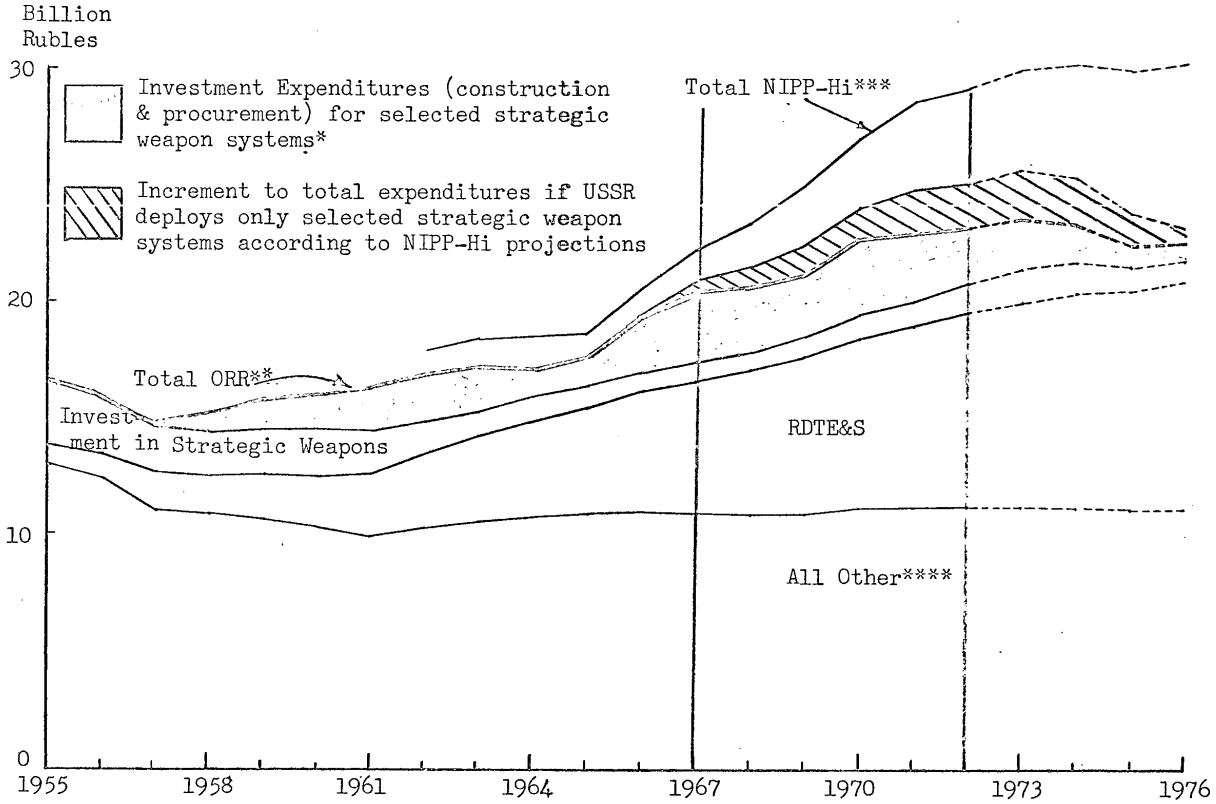
8. The immediate effect on Soviet living standards of the release of resources from military programs probably would not be great. Most of these resources would be more readily absorbed by the capital goods industry, permitting a somewhat more rapid rate of growth of GNP (and consumption) in the future. In addition, the skilled manpower and high-quality resources released under the terms of a freeze would be of great significance to the current drive to improve Soviet industrial technology in the civilian sector.

9. The impact of an agreement would be focused primarily on those sectors of Soviet defense industry producing advanced electronics, missiles, and nuclear warheads. The resources of the electronics industry probably could be shifted readily from military to civilian output or back again. It would be difficult to convert missile engine plants, static test facilities, and major production facilities to civilian output, and the USSR might not deem it desirable to do so. Support

for a continuing R&D effort, the space program, and production of modified replacement systems probably would go on.

10. Total Soviet military and space expenditures, defined to include the Soviet equivalent of the US DoD, AEC, and NASA budgets, do not equate with the smaller numbers that the USSR publishes annually as its defense budget. In general, many of the expenditures that would be reduced under a freeze appear to be covered by the explicit defense budget, and consequently there should be a budgetary reflection of a Soviet implementation of a freeze agreement. However, because the USSR can shift accounts among budget categories without explanation, movements in the announced military budget cannot be relied on as confirmation of implementation of a freeze.

Estimates and Projections of Soviet Defense Expenditures, 1955-76:
Potential Effect of Strategic Arms Freeze



* Includes ICBMs, MR/IRBMs, Submarine Ballistic Missile systems, Moscow type ABM, Tallinn Long Range SAM system.
** ORR estimate current as of April 1967: Comparable in scope to sum of US DOD, AEC, and NASA budgets.
*** Preliminary NIPP-67 data. Total derived by summing expenditure implications of all NIPP-Hi force projections.
**** Includes general purpose forces, command & general support, and operating costs for strategic weapons.

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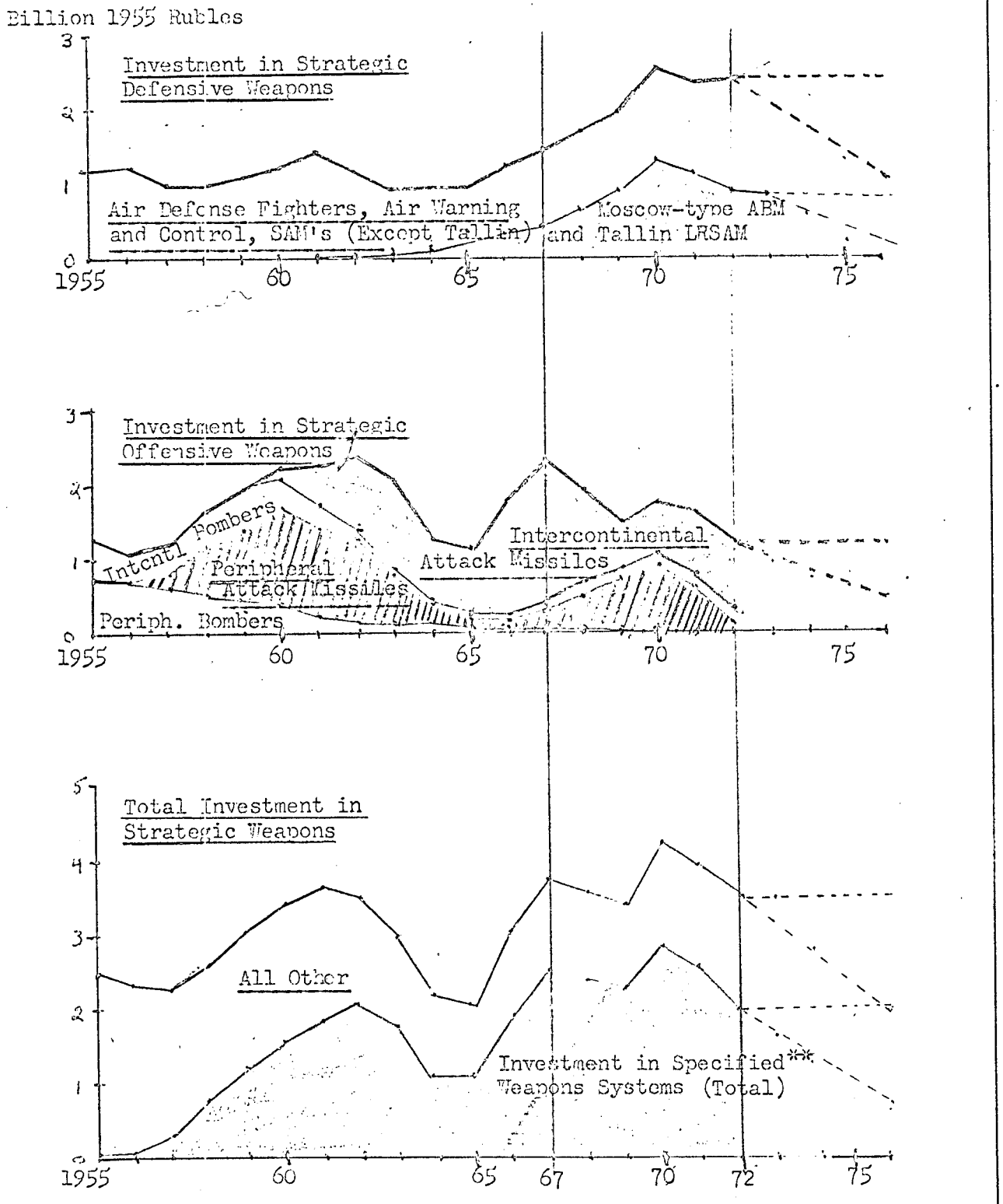
Tab B

Tab B

Estimated Soviet Investment:* Strategic Weapons Systems



* Costs of construction and equipment for deployed systems, including warhead costs.

** Includes MRBM's, IRBM's, ICBM's, Submarine launched ballistic missiles, the Tallin Long Range SAM system, and ABM.

Tab C
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Expenditure Implications of a Forced Draft
Soviet Response to US ABM Deployment

Tab C

1. A general appreciation of costs to the USSR to respond to a full-scale US ABM and shelter program has been derived through preliminary analysis of levels of investment in strategic defensive systems that might be required to match the US missile threat of the mid-1970's, plus the costs of improvements to Soviet strategic attack forces to enhance its penetration capabilities in the face of US ABM deployment. In this analysis we have not attempted to make judgments on the effectiveness or reliability of the systems deployed.

2. In terms of expenditures for constructing and equipping strategic systems, under the above assumption we believe that the USSR might face costs roughly on the order of 15 to 25 billion rubles (about 35 to 45 billion dollars in terms of US equivalent costs) during 1967-76. This level of expenditures would be largely incremental to the approximately 16-17 billion rubles (about $30 billion) which we presently project that the USSR will probably invest during 1967-76 for constructing and equipping the specific strategic systems being considered as candidates for an arms limitation agreement. We cannot, however, exclude the possibility that the USSR might considerably curtail further improvements in its capability in peripheral attack

(MR/IRBM's and medium range bombers) or in other forces in order to strengthen its intercontinental attack and its missile defense capability. We also do not at this time have sufficient data to provide an estimate of the net increments to operating and maintenance costs that might be incurred by the strategic arms race case.

3. While we were unable in the time available to distribute the costs of these expanded programs on an annual basis we judge that the rise would be gradual during the first two to three years and that peak annual deployment costs for all of the specified systems of some 4 to 5 billion rubles ($7-9 million) would be reached in the years 1971 to 1974.

4. There are a number of important caveats to be borne in mind in considering the figures presented above. In the first place evidence falls off rapidly, in the period beyond one or two years from the present time, of probable Soviet intentions to deploy particular weapons systems. Projections over a ten year time span are particularly speculative. As a general guide for the period 1967-76 we have drawn on the expenditure implications for a high Soviet force structure in strategic systems that represents the high side of the intelligence community's expectations. This level should not be considered as being either necessarily constrained by economic

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considerations, or as representing a maximum "arms race case."

5. Finally, we would emphasize that the discussion contained in Tab A to this memorandum on the imperfect fluidity of resources into and out of advanced strategic weapons programs also applies to the resources and programs which generate the expenditure levels considered above. For this reason, and also because reduced requirements for strategic weapons might result in significant shifts of resources to other Soviet military programs, savings in military expenditures for specific systems cannot be directly converted into their full potential for investment or consumption in non-military sectors of the economy.